

**BEFORE THE**  
**PRESIDENT'S COMMISSION**  
**ON THE UNITED STATES POSTAL SERVICE**

TESTIMONY OF:

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Good morning, members of the Commission. I am Jane Weizmann, Senior Consultant and Washington, D.C. Compensation Practice Leader at Watson Wyatt Worldwide. I have led the collaborative Unisys/Watson Wyatt team on this study. Unisys, the prime contractor, is a global leader in providing leading-edge, enterprise-wide solutions on more than 200 current federal contracts. Watson Wyatt Worldwide is a premier human capital consulting firm.

I am here before you today to discuss the compensation and incentive system design study. The Commission sought specialized assistance from Unisys/Watson Wyatt in identifying a compensation incentive system that will engage all levels of the Postal Service workforce in the goal of improving Postal Service productivity, reducing costs, enhancing customer service, and supporting the mission of the Postal Service.

To that end, I will briefly discuss our research methodology, effective incentive plan design and our preliminary findings. The Commission should note that this study is intended to produce a preliminary, high-level feasibility assessment. Our findings will be presented at a conceptual level, will be theoretical in nature and will require further research, development and testing within the USPS before conclusions can be finalized.

#### **RESEARCH METHODOLOGY**

Because of a compressed project timeline, our research was limited to interviews at USPS headquarters, postal worker union representatives and randomly selected employee groups from Northern Virginia processing and distribution centers. We initially met with finance, human resources and labor relations executives at the Postal Service to gather information on past and current incentive plans, operational data and labor union contacts. Next, we met individually with five labor union and management association presidents (or their designees) to discuss their viewpoints on operational improvement opportunities, the motivational effect of an incentive plan and the overall viability of an incentive plan.

To gauge employee perceptions, we visited the Merrifield, Virginia processing plant to conduct focus group meetings. The purpose of these meetings was to gather employee perceptions and advice on opportunities for improvements within their areas of activity and their reactions to incentive opportunities. We spoke with small, but diverse, volunteer groups of clerks, mail handlers, letter carriers and supervisors. These groups were very forthcoming on issues such as productivity, customer service, employee engagement and incentive compensation.

Finally, we returned to Postal Service headquarters to meet again with finance, human resources and labor relations executives to gather more refined viewpoints and data on improving productivity, reducing costs and enhancing customer service.

## **EFFECTIVE INCENTIVE PLAN DESIGN**

We were retained to only examine the role of an incentive plan to engage all levels of the Postal Service, so that is our sole focus this morning although we believe other ingredients for change are equally important to address in this process. Organizations that use incentive plans effectively recognize that an incentive plan is but one tool in the total reward philosophy of the organization. Other essential tools to engage and reward the workforce include wages, benefits and recognition programs, as well as opportunities for skill training, communications, performance management and safe working environments. Rewards are fundamentally communication vehicles, sending messages that are consistent with, and reinforce other messages employees are receiving about business goals, desired behaviors and culture.

As organizations are pressured to achieve higher levels of performance and productivity, they are searching for ways to leverage limited resources. Variable incentive pay is the number one design used to influence short to mid-term business results. Coupled with astute strategy, solid leadership and good working conditions, variable pay incentive designs can:

- Motivate results by creating economic value for changed behaviors
- Communicate priorities to indicate the relative importance of certain objectives and goals of the organization
- Engage employees in business success by sharing the gains realized from changed behaviors
- Reward valued skills and behaviors
- Create business literacy by educating employees on how and why their contributions will benefit them and their organizations
- Create esprit and solidarity through a common cause and renewed energy, and
- Contribute to a compelling place to work

Variable incentive designs have increased in popularity and prevalence because they provide a means of controlling costs, supporting long-term cultural change efforts, and directing performance toward the accomplishment of business objectives. According to 2002-2003 Industry Report on Technician and Skilled Trades Personnel Compensation report published by Watson Wyatt Data Services, 68% of survey respondents (or 996 organizations) indicated they currently have a bonus or variable pay program in which technician and skilled trades personnel participate. Additionally, in this same survey, another 593 organizations indicate that they will install new variable pay programs for technician and skilled trades personnel in the next two years.

In highlighting the qualities of an effective incentive plan, it is important to consider what an incentive plan cannot do. An incentive plan cannot:

- Replace trusted, quality leadership
- Create results where barriers exist which inhibit performance (for example, technology deficiencies or process inefficiencies)
- Fix an outdated or ill-conceived business strategy, nor
- Meet all of an organization's human resources objectives

Because the purpose of variable incentive plans is to energize and focus employee efforts, the design needs to "fit" the culture and specifically address the needs of the organization. To this end, the design process is often iterative and complex. An effective plan design must be based on a philosophical underpinning, clearly defined objectives, line of sight metrics, appropriate performance periods, reasonable investment returns and, most importantly, communication, coaching and performance management.

#### **HISTORY OF INCENTIVES AT THE USPS**

The Postal Service maintains a portfolio of awards and recognition programs to cover career, career bargaining unit, non-career and management employees. The current National Performance Assessment Program is a management compensation plan that provides economic rewards for achievements related to customer, employee and business objectives. It replaces the economic value added ("EVA") plan which was previously available to approximately 84,000 EAS and PCES. According to USPS reports and studies, extraordinary accomplishments were realized while EVA was in place, including significant improvements in:

- Net income
- On-time delivery
- Workday injuries per 200,000 work hours

#### **RESEARCH FINDING: INCENTIVE DESIGN FRAMEWORK**

From Watson Wyatt's point of view, an organization-wide incentive program with set targets and cascading performance goals designed to motivate individuals and engage all USPS employees in specific behaviors related to improving productivity, reducing costs and enhancing customer service makes very good sense. We believe, if designed correctly, it could result in improved financial performance and help illuminate improvement opportunities between operating units engaged in collection, processing and delivery. We are of the opinion that an organization-wide incentive design would also enhance solidarity among the ranks and serve to create line of sight for employees between their contributions and attainment of USPS's operating objectives.

Inasmuch as the National Performance Assessment Program has recently been put in place for USPS management, we have focused our recommendations on the creation of a complimentary, cascading design for the remaining 820,000 USPS career employees. Our preliminary incentive design criteria for EAS and union employees are that it be:

1. Self-funded
2. Calibrated by productivity and mail volumes
3. Triggered by mission achievement.

I will now briefly discuss each of these criteria.

1. **Self Funded:** The new plan should be self-funded which means that USPS shares a portion of improved economic gains with employees. Although Watson Wyatt has not studied the competitiveness of the Postal Service's pay and benefits programs, we have been told that employee compensation levels below the management levels are market competitive except in high cost-of-living areas, and that employee benefits are generally market competitive, enhanced by the economic value of job security offered by the Postal Service. For this reason, we recommend that any new plan be self-funded from incremental financial results.
2. **Calibration:** We believe that metrics that correlate with improved financial results should be used to set targets, track progress and determine award values for employees. From the USPS 2002 Annual Report we calculate that fully 78% of USPS's 2002 operating costs are related to the provision of compensation and benefits for employees. Therefore, we believe that the best measures for tracking improved financial results are those associated with improved productivity and efficiency. For this reason, we believe that a target set around "PIECES PER EMPLOYEE" that move through the postal service system will appropriately track and report operating efficiencies for employees engaged in mail collection, processing and delivery.
3. **Mission:** According to USPS officials, failure to achieve guaranteed customer service levels over a period of time is predictive of decreased mail volume and heightened customer disaffection. Inasmuch as achievement of the USPS's universal distribution mission is financially bolstered by first class mail and package services, customer loyalty is an important component of the USPS business model. As such, our recommendation is to use achievement of customer service guarantees at current national levels as a "proxy" for customer loyalty and satisfaction and to set a performance threshold below which the plan does not pay, regardless of improvements in productivity.

## **WATSON WYATT'S FINAL REPORT**

Our final report will address the issues of:

- Incentive target setting
- Performance periods, and
- Processes for determining return on investment and design effectiveness

The key questions to target setting are:

- Is there a financial benefit to improved productivity?
- What is the organization willing to pay employees for improved levels of contribution to organizational results?

If performance thresholds are set too high, the plan will be ignored. If targets are set too low, incentive earnings become an entitlement and ultimately employees perceive them to be part of base pay. Additionally, our report will briefly address the environmental and cultural conditions we believe will be necessary for success of an organization-wide design.

Based upon the assignment that we are currently under, our report will not address:

- Financial modeling and costing
- Assessment and analysis of current cash compensation
- Development of plan documents
- Implementation and employee communications.

We anticipate providing our complete report to the Commission by June 6, 2003.

Thank you.